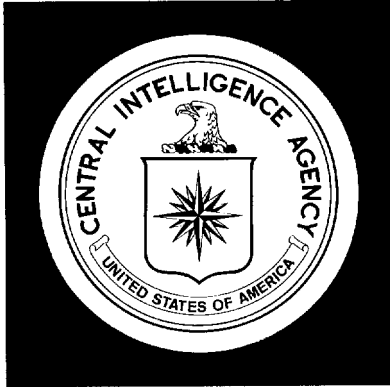


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KOREA: The North Koreans have been treating Seoul's declaration of martial law with circumspection.

Pyongyang has apparently decided not to jeopardize the dialogue with the South by an excessively negative reaction. In sharp contrast to its harsh propaganda immediately following Seoul's emergency declaration last December, Pyongyang's commentary on President Pak's action has been routine in content and has made no direct criticism of him. Pyongyang may feel that this more cautious approach will enable it to gain more influence over the pace and scope of the dialogue it has been carrying on with the South. The North Koreans can now claim, for example, that their mild response adheres to the 4 July joint agreement calling for an end to propaganda invective and contrast this with what they allege is Seoul's failure to live up to the agreement.

A North Korean article published after Seoul's martial law decree on 17 October confirmed Pyongyang's willingness to go ahead with the talks, and the 24 October meeting of the Red Cross delegations in the North Korean capital will probably proceed as scheduled. North Korea's quick and positive response on this subject may be partially due to its advance knowledge of Seoul's action. [REDACTED]

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[REDACTED] at the Panmunjom meeting with the North Koreans on 16 October, the South Korean Red Cross official had instructions to provide Pyongyang with prior notification of the martial law announcement along with assurances that the talks would not be affected. Such an action would explain the confidence of the South Koreans that their decree would have no major effect on the talks and their eagerness to publicize the next round of the Red Cross discussions.

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The situation in South Korea also appears well in hand. Virtually no resistance to the new decree has been reported and the regime has now begun to ease some of its restrictions. In an effort to avoid a crisis atmosphere, public assembly except for political purposes is now permitted and some universities have been reopened. The military has been instructed to avoid interfering with routine popular activities and the presence of military equipment and armed personnel in the capital and other major cities is being kept to a minimum. The political opposition and the press remain under tight security wraps, but no arrests have been reported. Domestic and foreign businessmen are being reassured by senior officials that the new measures will not hinder the country's economy or affect on-going economic activities.

The government is feeling its way gingerly, nonetheless, and will probably maintain extremely tight security at home until the process of amending the constitution is completed toward the end of the year. The proposed amendments--designed to perpetuate Pak's leadership--will be announced on 27 October and South Korean authorities have already begun to leak details of the proposals, probably in an effort to cushion their impact. The arrangements include a president chosen for six years by a group of electors selected from local administrative units controlled by the government. A National Assembly to serve concurrently with the president will be partially elected and partially appointed by the new executive.

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JAPAN: Tokyo has announced a new five-point program to reduce pressures for another yen revaluation, but it is doubtful if the measures will have the desired effect.

The program is designed to cut back Japan's large trade surplus mainly through import liberalization. It includes easing quotas on certain restricted items, a 20-percent cut in tariff rates on industrial and processed agricultural goods, and a simplification of import procedures. Export controls will involve volume limits on selected fast-growing items such as automobiles and television sets. The program also calls for liberalizing long-term capital transactions, including the reduction of restrictions on foreign investment in Japan and the encouragement of more Japanese investment abroad. Other measures include a supplementary budget intended to boost imports and an expansion of foreign aid. At the same time, Tokyo also announced curbs on foreign purchases of Japanese securities aimed at halting speculative capital inflows.

The program represents a compromise among key economic ministries and reflects Prime Minister Tanaka's desire to avoid antagonizing important segments of the business community prior to Diet elections now expected in December or January. It will be submitted for Diet action later this month even though bureaucratic infighting is continuing. Ministry of Finance officials, who wanted stronger export controls, have publicly called the program a "token step," while the Ministry of Agriculture is still fighting import liberalization.

This is the third such program initiated within the past 15 months. It is not likely to have much impact on this year's enormous trade surplus or significantly ease pressure for revaluation. Business and government officials worldwide have become highly skeptical of Tokyo's willingness to adopt

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strong measures. Even after the latest program was announced, dollar selling in the Tokyo money market remained heavy, and the Bank of Japan had to buy some \$90 million to support the dollar.

Tokyo's latest supplementary budget is also a compromise and is unlikely to change the trade situation much in the short run. It does not exceed last year's supplementary budget, reflecting Tokyo's reluctance to boost spending much faster because of the rapid recovery of the economy. There is growing anxiety over recent large price increases and Prime Minister Tanaka wants to keep inflation at a minimum, especially in view of the Diet elections. [REDACTED]

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PHILIPPINES: President Marcos is moving quickly to strengthen his grasp on political power while martial law still enjoys widespread popular support.

25X1 [redacted] Marcos is building cases which implicate Vice President Fernando Lopez and Cebu Mayor Sergio Osmena in recent alleged assassination plots against the President. The Lopez and Osmena clans are both powerful forces within the economic and political oligarchy which has traditionally dominated the Philippines, and both are important sources of anti-Marcos sentiment.

Since the imposition of martial law last month, Marcos' efforts to intimidate the Philippine political establishment and promote himself as an unchallenged populist leader seem to be proceeding on schedule. The Marcos-controlled Constitutional Convention is producing a blueprint for both an interim government and a subsequent parliamentary regime which will allow Marcos to continue indefinitely as either chief executive or prime minister. Marcos has told the convention to finish the draft of the new constitution by the end of next month.

With these necessary arrangements well in hand, the President may believe the time is right to begin picking off his more formidable political opponents one by one. He hopes to neutralize all potential sources of opposition before holding a national referendum on his new constitution. [redacted]

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ITALY-USSR: The main purpose of Prime Minister Andreotti's trip to Moscow next week is to make modest progress toward better Italian-Soviet relations and thus to stay in step with trends toward detente in other Western countries.

According to Foreign Minister Medici, Rome is modeling its approach on that of Ottawa and Paris,



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The Italians expect to discuss the Conference on Security and Cooperation in Europe (CSCE) and to sign a "protocol of consultations" providing for the two foreign ministers to exchange annual visits.

Economic and trade matters will be important in Andreotti's discussions. The Soviets indicated their interest in expanding economic ties when they insisted that Bank of Italy Governor Guido Carli accompany Andreotti. Moscow may be seeking additional credits, the resolution of technical trade problems, and an expansion of scientific and industrial cooperation.

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Rome wants to discuss trade deals for such big firms as Fiat and Olivetti and Soviet use of Italian natural gas processing techniques.

Consular relations may also be expanded. The Soviets want a consulate in Milan in return for an Italian consulate in Leningrad. In accordance with a previous agreement, the Soviets opened a consulate in Genoa in 1968, but the Italians never took up an option for an office in Odessa.

Andreotti's trip is reportedly intended in part to defuse domestic criticism of his "center" government, which he formed without the Socialists, by showing that Moscow will deal with him.

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The Soviets undoubtedly regard the visit as another opportunity to exchange views on issues likely to be raised in the preparatory CSCE talks, which they are most anxious to have go smoothly. The declaration of principles they have sought in preliminary contacts with the Italians would support this aim, but the Italians apparently will not accept such a statement at this time. Moscow will regard agreements in other areas, including regular high-level consultations and further economic deals, as fully consistent with its current posture toward most of Western Europe. The Soviets may also use the occasion to sound out the Italians on the results of the EC summit and on how East European economic relations with the EC states may be treated after the Market's common commercial policy goes into effect on 1 January.

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URUGUAY: Serious differences are developing between President Bordaberry and the military leadership.

Defense Minister Legnani has resigned as a result of growing difficulties with the armed forces, and the former minister of agriculture has been appointed the interim defense minister. Service commanders last week blocked Legnani's move to fire the chief of military intelligence for insubordination, and they also have refused to obey an order to free four doctors arrested on charges of subversion whose release had been decreed by the military courts for lack of evidence.

Under the pressure of military leaders, the administration has agreed to conduct a campaign against illegal economic activities, but Bordaberry reportedly intends to crack down only on current abuses, while military leaders also want to try anyone who is known to have engaged in profiteering in the past. The military already is pressing for the prosecution of two of Uruguay's top political figures, pro-administration leader Jorge Batlle and the head of the liberal Blanco opposition, Wilson Ferreira.

Bordaberry is under mounting political pressure, especially from Ferreira, to muzzle the military activists. The President may also fear that uncovering the crimes of prominent citizens will result in a scandal that could discredit the democratic process in Uruguay.

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High-ranking military officers are becoming more intransigent in their demands. [REDACTED]

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[REDACTED] Several of the more popular generals, including the ambitious Esteban Cristi, have been outspoken in criticizing civilian and political elites. A number of junior officers seem eager to support any general who moves forcefully to prosecute economic offenders.

Military leaders tend to bypass the bureaucratic hierarchy and go directly to Bordaberry. Although most of the generals profess loyalty to the administration, their growing commitment to the investigation of economic crimes may precipitate a serious clash of wills. [REDACTED]

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INDIA-PAKISTAN: Apparent agreement on the delineation of the line of control in Kashmir this week could pave the way for mutual troop withdrawals along the entire India-Pakistan border. New Delhi and Islamabad reportedly plan to announce their approval of the slightly modified 1949 Kashmir cease-fire line following agreement by military leaders this weekend. After adjustment of troop positions in Kashmir, the two countries can begin withdrawing their forces from territory seized south of Kashmir during the war of last December. The pullback, which could be completed within two weeks, would result in the return of 5,600 square miles to Pakistan and less than 100 square miles to India. This in turn could facilitate the holding of the postponed second India-Pakistan summit. There is, however, no evident progress on the two major problems--Pakistani recognition of Bangladesh and the repatriation of some 91,000 Pakistani prisoners of war from India. [REDACTED]

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CHINA: The appointment of two more new government ministers indicates that Peking continues to make progress in restaffing the state bureaucracy, a process virtually halted after the Lin Piao affair last fall. The new minister of the State Planning Commission, a civilian, is an experienced administrator, unlike the new minister of water conservancy and power, who was a provincial military leader until his transfer to Peking in 1970. Despite the regime's public statements calling for a reduction in the political and administrative powers of the army, two of the three recently appointed ministers have been army officers. [REDACTED]

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CENTRAL AMERICA: An interim arrangement has been reached to permit Costa Rica to return to the Central American Common Market. The agreement is intended to provide Costa Rica with the export incentives it needs to reduce its foreign payments deficit to manageable limits. Balance-of-payments problems which had prompted Costa Rica to adopt protectionist policies and the countermeasures taken by other Market members had threatened the viability of the Common Market. El Salvador, Guatemala, and Nicaragua will accept Costa Rican goods at a new export exchange rate 15 percent below the present free market rate at which Costa Rica imports from them. In addition, they have increased to \$25 million the annual amount of credit they will extend to finance Costa Rica's purchases within the market. These actions, along with Costa Rica's agreement to follow a new stabilization program, should set the stage for fundamental restructuring of the Common Market at meetings scheduled for early December. [REDACTED]

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